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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, May 26, 2000

PETITION OF

CASE NO. PUA000012

AQUASOURCE UTILITY, INC.,

RESTON LAKE ANNE AIR CONDITIONING CORPORATION,

DOUGLAS A. COBB,

and

BARBARA B. COBB

For approval of a change of control
of a Virginia public utility company
and related matters

ORDER GRANTING APPROVAL

On March 7, 2000, AquaSource Utility, Inc. (“AquaSource,” the “Company”), filed a petition under the Utility Transfers Act requesting approval for AquaSource to acquire from Douglas A. Cobb and Barbara B. Cobb (“the Cobbs”) all the common stock of Reston Lake Anne Air Conditioning Corporation (“Reston Lake,” “RELAC”). On

May 5, 2000, the Commission issued its Order Extending Time For Review through June 5, 2000.

AquaSource also petitioned, under the Affiliates Act, for approval of affiliate transactions with RELAC. Additionally, approval is requested to terminate all affiliate agreements between the Cobbs and RELAC since any affiliate relationships between the Cobbs and RELAC will cease to exist upon consummation of the proposed transfer. AquaSource represents that upon approval of the proposed transfer a new lease between non-affiliates RELAC and the Cobbs will be executed.

AquaSource is a wholly owned subsidiary of AquaSource, Inc., which is in turn a wholly owned subsidiary of DQE, Inc., a publicly traded utility holding company. DQE, Inc., the parent company of AquaSource, Inc., is a Pennsylvania based energy service company and parent of Duquesne Light Company. AquaSource and AquaSource, Inc., report their financial data on a consolidated basis with DQE, Inc.

The Cobbs currently own all of the issued and outstanding stock of Reston Lake. As such, the Cobbs and Reston Lake are affiliates. RELAC is a Virginia public utility company providing air conditioning service to households in Fairfax County, Virginia. Reston Lake currently serves approximately 320 customers.

AquaSource/RLAACC, Inc. ("Subsidiary"), is a wholly owned subsidiary of AquaSource Utility, Inc. As stated in the petition, Subsidiary was organized solely for the purpose of completing this transaction and will be merged into Reston Lake.

As described in the petition, each share of Subsidiary's common stock will be converted into one share of common stock of Reston Lake. As the surviving corporation in the merger, RELAC will continue to own the air conditioning system and will continue to use the system to provide service to its current customers. RELAC will become a wholly owned subsidiary of AquaSource after consummation of the transaction.

Company states that upon the merger of Subsidiary into RELAC the Reston Lake common stock owned by the Cobbs will be converted into preferred stock of DQE and cash at a conversion ratio of 80/20. This will result in an aggregate purchase price of \$517,000.00, as adjusted pursuant to the Agreement and Plan of Merger between the parties. The Company also states that the net book value of the Reston Lake system as of December 31, 1998, is \$282,943.00 and that the adjusted rate base, as determined in the Commission's Order dated September 7, 1999, in Case No. PUE980139, is \$290,042.00. AquaSource will record the acquisition under the purchase method of accounting, and the difference between the asset value and the purchase price will be booked as an acquisition adjustment.

AquaSource represents that immediately after closing the transaction it may temporarily contract with an unaffiliated entity for operation and management of Reston Lake. However, in the event AquaSource chooses to operate RELAC through employees of RELAC, AquaSource requests approval to provide limited services to RELAC. Such services include administrative and personnel services consisting of payroll administration and administration of employee benefits programs and insurance

programs. AquaSource further represents that it will cover RELAC's employees with the same benefits, insurance plans, and coverage as it has for its own employees.

AquaSource will bill RELAC monthly for the actual payroll and related benefits and in turn pay RELAC's employees. The Company states that it will charge RELAC an administrative fee of \$10.00 per month per employee to cover the cost of providing this service. These provisions are identical to those approved by the Commission in Case No. PUA980048 for AquaSource's acquisition of the Lake Monticello Service Company.

THE COMMISSION, upon consideration of the petition and representations of RELAC and having been advised by its Staff, is of the opinion and finds that the above-described transfer of control will neither impair nor jeopardize the provision of adequate service to the public at just and reasonable rates as long as AquaSource is granted first right of refusal in the event the Cobbs decide to sell the land on which RELAC is situated. The Commission is also of the opinion that the affiliate agreement between AquaSource and RELAC is in the public interest and should, therefore, be approved subject to pricing at the lower of cost or market where a market exists for services provided to RELAC. The Commission notes that upon consummation of the transfer of control any affiliate relationship between the Cobbs and RELAC will cease to exist and approval will not be required pursuant to the Affiliates Act. Accordingly,

IT IS ORDERED THAT:

1) Pursuant to §§ 56-88.1 and 56-90 of the Code of Virginia, AquaSource Utility, Inc., is hereby granted approval to acquire control of Reston Lake Anne Air

Conditioning Corporation under the terms and conditions and at the price of \$517,000.00, as adjusted pursuant to the Agreement and Plan of Merger described herein, subject to AquaSource being given first right of refusal should the Cobbs decide to dispose of the land on which RELAC is situated.

2) RELAC shall file with the Director of Public Utility Accounting within thirty (30) days of execution an executed copy of the new lease for the land on which RELAC is situated that replaces the Lease Agreement currently in effect, reflecting the modification set forth above.

3) Pursuant to § 56-77 of the Code of Virginia, AquaSource Utility, Inc., is hereby granted approval to provide services to Reston Lake Anne Air Conditioning Corporation under the terms and conditions described herein, subject to certain pricing requirements.

4) For services provided by AquaSource for which a market might exist, RELAC shall ascertain whether there is a market for such services. If a market exists, RELAC shall compare the market price with its cost of obtaining the services from AquaSource, and it shall pay the lower of AquaSource's cost or the market price.

5) The approval granted herein shall have no ratemaking implications.

6) Should there be any changes in the terms and conditions of the affiliate agreement between AquaSource and RELAC from those contained herein, Commission approval shall be required for such changes.

7) The Commission reserves the authority to examine the books and records of any affiliate in connection with the approval granted herein whether or not such affiliate is regulated by the Commission.

8) Any excess earnings resulting from operational efficiencies or cost reductions shall be at issue in any filings or proceedings addressing rates.

9) The approval granted herein shall in no way be deemed to include the recovery of any portion of the consideration paid in excess of the rate base at the time of closing, through either an acquisition adjustment or any other type of adjustment for ratemaking purposes.

10) RELAC shall file a Report of Action with the Commission's Division of Public Utility Accounting on or before August 31, 2000. Such report shall contain the date of transfer, the sales price, and all accounting entries reflecting the transfer on the books of RELAC and AquaSource.

11) There appearing nothing further to be done in this matter, it is hereby dismissed.